REPORT TO:	**AUDIT SUB-COMMITTEE**	**AGENDA ITEM: 7**
DATE OF MEETING:	**6 MARCH 2024**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**STRATEGIC DIRECTOPR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**CHARLOTTE JACKSON** Charlotte.jackson@southderbyshire.gov.uk	**DOC:** S:\Finance\COMMITTEE\2023-24\March\ACCOUNTING POLICIES AND MATERIALITY
SUBJECT:	**ACCOUNTING POLICIES AND MATERIALITY 2023/24**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM08**

1.0 Recommendations

1.1 To consider and approve the Draft Accounting Policies for the 2023/24 Financial Statement as detailed in Appendix 1.

1.2 To consider and approve the materiality levels as set out in section 4.9.

1.3 To consider and approve Delegate authority to Section 151 officer to make any necessary amendments.

2.0 Purpose of the Report

2.1 To review and approve the draft accounting policies and materiality levels for the 2023/24 Financial Statements.

3.0 Detail

3.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

3.2 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year-end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements.

3.3 Accounting policies need not be applied if the effect of applying them would be immaterial.

3.4 The Audit Sub Committee's Terms of Reference require the committee to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. It is therefore considered good practice for the committee to have greater visibility over these accounting policies before they are applied.

3.5 The accounting policies are reviewed each year by officers to ensure all accounting policies previously approved are still relevant and are in accordance with the latest version of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice and International Financial Reporting Standards (IFRS) requirements. Any new requirements are added to the policies, and policies which are no longer relevant or have no material effect on the Statement of Accounts, are removed.

3.6 The following Accounting Standards have been amended/introduced by the Code of Practice in 2023/24:

- IAS 1: (Presentation of Financial Statements) Amendments to the definition of accounting estimates
- IAS 8: (Accounting Policies, Changes in Accounting Estimates and Errors) Amendments to the disclosure of accounting policies
- IFRS 3: (Business Combinations) Updating a reference to the Conceptual Framework
- IAS 12: (Income Taxes) Deferred tax related to assets and liabilities arising from a single transaction.

3.7 The application date of the above amendments is the 1 April 2023, although IFRS 3 and IAS 12 are not relevant to the Council.

3.8 The relevant amendments change the wording of existing Accounting Standards to clarify the interpretation and understanding of the Standards. They do not have any significant impact.

3.9 This practice of receiving and approving the accounting policies before the statement of account are produced is considered best practice and is widely adopted in local government. In effect the subcommittee has already been undertaking this practice but at the end of the process when approving the annual accounts, since the accounting policies form part of the annual accounts themselves.

3.10 The proposed accounting policies for 2023/24 are included in **Appendix 1** and are presented to the committee for approval. Adopting the proposed policies will support the timely production of the annual accounts.

3.11 During the year-end process there may be changes required to the policies arising from changes in circumstances or updated guidance. These will be agreed with the Section 151 Officer and reported to the Audit Committee alongside the final version of the Statement of Accounts.

4.0 <u>Materiality Levels</u>

4.1 Materiality is defined in the Code as:

“Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.”

4.2 Setting materiality levels enables the finance team to identify significant variances and items that need disclosing in the financial statements.

4.3 The practice of setting internal materiality levels is considered best practice, it aids the work of the Accounting Team when producing the financial statements, setting internal materiality levels ensures that errors are mitigated. In effect the subcommittee has already been undertaking this practice but at the end of the process when approving the audit plan.

4.4 Levels for the 2023/24 financial statements are set out in 4.9 for approval. The levels of materiality agreed by the committee will be used in the preparation of the financial statements and information provided for external audit purposes.

4.5 External Audit apply their own test of material misstatements. The internal materiality levels presented to the committee for approval have been set in reference to the external auditor's own materiality levels.

4.6 The following materiality levels are proposed for the preparation of the 2023/24 Financial Statements:

Balance Sheet

4.7 Materiality will be set at 10% of the 2022/23 closing balance, subject to the external auditors advised materiality, although some areas are material by nature so this will also be taken into account.

4.8 Where the external auditor's materiality is less than 10% of the balance sheet, the materiality applied internally is reduced to 90% of the external audit materiality. By setting our internal materiality level at a lower level than the external auditor's level, we will ensure we capture all issues the external auditors will consider material and we are allowing for any movement in the External Auditors materiality level.

4.9 The 2022/23 balances are deemed to be the best consistent point to assess materiality on, as although the majority of balance is reconciled and updated regularly thought-out the year, some areas, the pension liability for example, is only updated at the end of the financial year.

Balance Sheet Area	2022/23 Balance (Draft SofA)	Materiality Level 10%	External Audit Materiality Level 2023/24*	90% of External Audit Materiality Level	Internal Materiality Level
	£'000	£'000	£'000	£'000	£'000
Property, Plant & Equipment	171,784	17,178	325	293	293
Investment Property	6,011	601	325	293	293
Long-term Investments	3,572	357	325	293	293
Long-term Debtors	88	9	325	293	9
Inventories	104	10	325	293	10
Short-term Debtors	7,427	743	325	293	293
Cash & Cash Equivalents	61,934	6,193	325	293	293
Short-term Creditors	-20,540	-2,054	-325	-293	-293
Short-term Borrowing	-10,089	-1,009	-325	-293	-293
Provisions	-659	-66	-325	-293	-66
Long-term Creditors	-55	-6	-325	-293	-6
Long-term Borrowing	-37,423	-3,742	-325	-293	-293
Pension Deficit	275	28	325	293	28

*2023/24 materiality levels are assumed to be on the lower end of the threshold due to it being a first-year audit with the newly appointed auditors.

5.0 Financial Implications

5.1 There are no implications from this report.

6.0 Corporate Implications

6.1 There are no implications from this report.

7.0 Legal Implications

7.1 There are no implications from this report.

8.0 Community Impact

8.1 There are no implications from this report.

9.0 Background Papers

9.1 Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.